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**U.S. POLICY TOWARD AN EMERGING IRAN:  
A NEED FOR CHANGE**

BY

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## **ABSTRACT**

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The surprising election of the moderate cleric, Mohammad Khatami, in May 1997 to the Iranian presidency began a new era in Iran. His actions since becoming president indicate the pursuit of a liberal domestic agenda focused on social and political reforms and an aggressive foreign policy agenda focused on leading Iran out of its nineteen-year isolation. Conditions appear conducive for the United States and Iran to begin moving toward a rapprochement, with the intent to eventually reestablish formal relations. This paper examines the underlying reasons for Khatami's election and why Iran wants to emerge from isolation, the internal political dynamics resisting change and reform, and how Khatami is attempting to move Iran forward. The paper also provides a brief overview of U.S. and Iranian relations, discusses current U.S. policy toward Iran, and presents recommendations for changes to U.S. policy that may enhance regional security and protect U.S. interests in the region.

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Since the 1979 Islamic revolution, the relationship between the United States and Iran has been acrimonious, acerbic, and distrustful. This period is punctuated by numerous events and crises resulting in these mutual feelings, such as the Iranian hostage taking of American diplomats in 1979, the Iran-Iraq war, the Iran-Contra episode, and the shooting down of an Iranian airliner by the USS Vincennes to name only a few. These episodes profoundly influenced American politics and policies toward Iran and the Persian Gulf region and deeply affected Iran as well, helping conservative ruling clerics demonize the United States to such an extent that it is a fundamental underpinning to their politics and policies.

An opportunity exists, however, for the United States and Iran to ameliorate this tense and estranged relationship. Since becoming president in August 1997, following an overwhelming and stunning election the previous May, Mohammad Khatami's efforts to carry out domestic reforms and his overtures to ease tensions within the Persian Gulf region and the West, particularly the United States, have generated much attention.<sup>1</sup> His statements and actions over the past eighteen months indicate his domestic and foreign policy efforts focus on leading Iran out of its mostly self-imposed nineteen-year isolation in order to rejoin the region and the international community.

This paper examines the underlying reasons for Khatami's election and why Iran wants to emerge from isolation, the internal political dynamics resisting change and reforms, and how Khatami is attempting to move Iran forward. The paper also provides a brief overview of U.S. and Iranian relations, discusses current U.S. policy toward Iran, and presents recommendations for changes to U.S. policy that might

strengthen security in the region and enhance the relationship between the two countries.

#### **KHATAMI'S ELECTION AND REASONS FOR EMERGENCE**

Winning seventy-percent of the thirty million votes cast from a ninety-percent voter turnout, Khatami was swept to power in Iran's 1997 presidential election by Iranians seeking change. After years of empty government promises, administrative favoritism, unfair discrimination, economic mismanagement, factual monopolism, and the denial of freedoms guaranteed by the constitution the Iranian people delivered a strong and clear message.<sup>2</sup>

Described by many as a watershed event, the election provides the moderate Khatami a level of legitimacy that is difficult to challenge. More importantly, it underscores the notion that Iran's fundamentalist efforts to politicize Islam since 1979 have largely failed, thereby raising the hopes of most Iranians that a new era of political and social freedom may be beginning.

Khatami's victory, in large measure, also reflects Iranian aspirations for a more moderate, less restrictive, and less isolated society. Iranian culture is lively, energetic, and young - over half the population is under twenty-three. Younger Iranians are less paranoid about foreign powers and desire a more open society that offers hope for a better standard of living and a freer social and political life. Importantly, most of the population has little direct memory of the Iran-Iraq war or the underlying reasons for hating the United States.

Khatami's election was also reflective of Iran's serious economic situation. A declining GDP, the lowest oil prices since 1976, economic stagnation, significant unemployment, and the consequences of twenty years of isolation and economic mismanagement created a situation that requires a large influx of foreign investment to revitalize and modernize the economy while providing job opportunities for the youth.

He understands that to improve the economy and create the numbers of jobs required to more fully employ the population, the Iranian oil and gas industry must be revitalized and rebuilt. The technology, expertise, and capital for this effort can only come from the West, and the United States is a key element in making this possible. Only by emerging from isolation and rejoining the world community can Khatami hope to move toward this goal.

Iran is also eager to play a key role in developing the Caspian Basin oil and gas resources. Proposals to construct a pipeline network through Iran in order to shorten the route to water ports would generate jobs and improve economic conditions. But Iran has met with little success in translating these proposals into reality due in large measure to U.S. restrictions on American firms participating and U.S. pressure on European allies not to participate.

There is no realistic hope of fundamental economic revival until some degree of political reform is achieved.<sup>3</sup> Since assuming office, Khatami has emerged as a leader intent on opening up Iranian society within his concept of individual freedoms which encompasses social, economic, cultural, and political liberty.<sup>4</sup>

Dozens of daily newspapers and weeklies have been founded; some reportedly tackling once taboo topics like Ayatollah Khomeini's shortcomings and the need for better relations with the United States. Bans on scores of books have been lifted and the government has become less intrusive in censoring film directors. Permits for student demonstrations to protest the bullying tactics of Muslim hardliners and even the validity of the Islamic government have also been granted.

These reforms clearly indicate Khatami is attempting to increase the level and scope of personal and political freedoms for Iranians. He realizes, however, Iran cannot remain isolated from the region and the world if it hopes to move forward as a society and nation. The economic interdependence of the world dictates that Iranian society must become more open, both internally and externally, in order to attract the technology, knowledge, and investment capital required to rebuild Iran's petroleum based economy and to satisfy the increasing expectations of its youthful population.

#### **INTERNAL POLITICAL DYNAMICS**

The reforms Khatami is attempting to implement, however, pose the greatest threat to his opposition, conservative clerics and other hardliners. Despite claiming a mandate of the people for his domestic reforms and foreign policy initiatives, Khatami is nonetheless handicapped by these groups. Well entrenched in the political system and government, they control the Majlis [legislature], the judiciary, the Council of Guardians [which supervises the operation of the

Majlis], and the Assembly of Experts [which appoints the Supreme Leader].<sup>5</sup> Much of the security services and the military also remain under hardliner control, particularly the Revolutionary Guards.

Although divided among themselves on many policy issues, these groups retain a great deal of power and are using indirect methods to undermine Khatami's authority in order to destabilize and erode his power base, hoping to prevent him from easing their anti-West doctrine and undermining their own political power.<sup>6</sup> This clash between hardline conservatives and moderate Khatami reformers manifested itself publicly for the first time in the arrest, trial, and conviction on corruption charges this past summer of Teheran's mayor, Gholamhossein Karabaschi. A major Khatami supporter, Karabaschi's conviction was viewed as a significant political blow to the president and signaled a concerted conservative offensive against him.

Other examples of conservative reaction against Khatami are the July 1998 ousting of his Interior Minister (a key supporter) and the closing of some liberal newspapers. Conservative clerics also issued statements contradicting Foreign Minister Kharrazi's September 1998 comments that distanced the government from a \$2.5 million reward for Salman Rushdie's death.

Recent attacks and slayings of numerous dissidents in Iran demonstrate the lengths to which the hardline groups are willing to go in their competition for political power. It is evident that the forces of the former regime retain a powerful place and are in a position to use an experienced and ruthless secret service to intimidate, coerce, and kill Iranian citizens who dare to exploit Khatami's reforms.<sup>7</sup>

The president scored a major victory, however, when a government investigation into these attacks and killings resulted in the resignation of the Minister of Intelligence and the dismissal of two top deputies in February of this year. Khatami supporters were appointed to replace them, implying that the president can now exert better control over this critical and important organization. It remains to be seen, however, whether he can bring this bureaucracy under his further control and the degree of success he might have in dismantling the ministry's role in terrorism.

Interestingly, Supreme Leader Ayatollah Khameinei, a conservative cleric and former president, appears willing to tolerate and support Khatami's reform efforts and allow the political process to develop with as little interference as possible. Apparently less willing to directly involve himself in politics than his predecessor, this perhaps marks the beginning of the Supreme Authority to elevate his position above the political process, except where the fundamental foundations of the republic may be at risk.

When the political process has spun out of control, however, as with the dissident attacks and murders, the Supreme Leader stepped in. He condemned the slayings in a December 1998 speech to a group of clerics, perhaps to assuage the popular outrage and in apparent rejection of conservative efforts to maintain some degree of control through assassinations and violence.

This internal power struggle complicates and distracts Khatami's efforts to liberalize society and pursue a more engaging foreign policy agenda, but he is continuing his reforms and fighting back. In response to the conservatives, Khatami supporters launched a counter-

offensive in December 1998, seeking to regain political momentum before the key February 1999 elections. More than one hundred political figures and senior officials formed the Islamic Iran Patriotic Front, pledging to take an active role in the country's first ever elections for 200,000 city and village officials. These elections were seen as a crucial test for Khatami's reform efforts and his intent to move toward pluralism.<sup>8</sup>

At the time of this writing, unofficial election results indicate a convincing and overwhelming victory for Khatami and his supporters. The election validates the degree of popular support for the reform measures and policies implemented thus far and further legitimizes Khatami's power. This support will likely send the conservatives reeling and looking for legitimacy while strengthening Khatami's position and his reform efforts. The hardliners are not likely to give up the fight, however, their political survival and theocratic concepts require nothing less. It remains to be seen how they might respond and whether the political situation will turn violent.

#### **HOW IRAN IS ATTEMPTING TO EMERGE**

Iran's size, demographics, and geography make it a natural power in the region, but until it reestablishes itself in the world community it cannot be economically, or politically relevant. Khatami recognizes economic improvement requires foreign capital and technology, which will come principally through improved relations with the Gulf countries, Europe, and the United States. To achieve his economic objectives, he is waging an aggressive and effective

foreign policy campaign to develop closer relations within the region and Europe, but has remained coy thus far with regard to the U.S.

Realizing Iran has few friends and many enemies and that any effort to emerge from isolation requires first coming to terms with one's neighbors, Khatami wasted little time in reaching out within the region after becoming president. His regional objectives appear aimed at restoring Iran's position in the Middle East, improving relations with the European Union, and enhancing Iran's stature in the Muslim world.<sup>9</sup> To this end, Foreign Minister Kharrazi traveled through the region in the Fall of 1997 to meet with his Arab counterparts, discuss issues, and encourage high level participation at the Organization of the Islamic Conference (OIC) in December 1997.

The OIC summit, hosted by Iran, provided Khatami a forum and opportunity to begin building trust and confidence with his neighbors and the rest of the Muslim world. It was in many respects a watershed event for Iranian foreign policy, marking Iran's return to the political mainstream after almost twenty years and positioning it on the threshold of restoring normal ties with key, pro-Western Arab states.<sup>10</sup>

Attended by fifty-five countries, the summit immediately boosted Iran's international prestige and bestowed on its president the leadership of the OIC for the next three years, conferring an aura of international legitimacy that helped consolidate Khatami's domestic authority.<sup>11</sup> During the conference, Khatami conducted numerous bilateral discussions with Persian Gulf leaders and stressed that his primary foreign policy aim was to scale back tensions between Iran and others in the region in order to create a more secure and stable

regional environment. In response to the success of the conference and Khatami's overtures, the Gulf Cooperation Council (GCC) in its eighteenth annual meeting, held only weeks after the OIC, called for an expansion of relations with Iran.

Rapprochement with Saudi Arabia is especially critical to Khatami's regional foreign policy efforts. The two share converging views on many regional issues - a desire for peaceful resolution to the Iraq situation, concern about oil prices, a desire to end the Afghanistan civil war, concerns about the peace process, and the need for closer regional cooperation in the Gulf to improve peace and stability.<sup>12</sup> Stronger ties with the Saudis are also an essential element within Khatami's broader foreign policy framework to further Iran's security interests and might also result in the Saudis serving as an intermediary when dealing with the West.

Evidence of Iran's closer relationship with Saudi Arabia is illustrated in the high-level visits and agreements conducted between the two since Khatami assumed power. Former president Rafsanjani made a well-publicized trip to Saudi Arabia in early 1998 and in May of the same year the two country's signed an agreement on industrial cooperation.<sup>13</sup> In December 1998, they reportedly renewed efforts to align their views on ways to rescue the collapsed petroleum market, with Iran expressing its readiness to back up any step that will help the oil price.<sup>14</sup>

Although Iran's relationship with Saudi Arabia is the most important in regional terms, Khatami also made significant efforts to assuage relations with other Gulf countries since August 1997, including Iraq. Between September 1997 and the December 1997 OIC

summit Iran unilaterally released 550 Iraqi prisoners of war (POWs), from the Iran-Iraq war, probably as a measure of good faith prior to the summit.

Khatami met with the Iraqi vice president during the OIC summit, setting the stage for the Iraqi Foreign Minister's visit in January of 1998 and in April Iraq released 319 Iranian POWs in exchange for almost 5,600 Iraqis. Khatami intends to break the decade long deadlock with Iraq to ease tensions and reach some *modus vivendi* for the moment.<sup>15</sup> Improved relations with Iraq will eliminate a distracting foreign policy element and could provide Khatami a degree of leverage in dealings with other Arab states.

Khatami is reaching out to all of the Gulf states. Iran's relations with Kuwait have improved to the point where the two now frequently exchange ministerial and parliamentary delegations. Rafsanjani visited Bahrain, a neighbor often accusing Iran of supporting anti-government elements, in conjunction with his 1998 trip to Saudi Arabia. Khatami also met with President Zayid of the United Arab Emirates during the OIC summit, a significant trading partner with whom there is a festering issue concerning the sovereignty of the Tumb and Abu Musa islands.

In October 1998, Iran mediated talks in the latest military crisis between Turkey and Syria over alleged Syrian support for Kurdish rebels. This effort led to Syria withdrawing troops from the border and pushed Iran further into the mainstream of regional politics, achieving a diplomatic standing more commensurate with its geopolitical status.<sup>16</sup>

Beyond the region, Iran has moved to improve its turbulent relations with Europe as well. A low ebb in relations came in April 1997 when members of the European Union (EU) recalled their ambassadors after a German court convicted four Iranians involved in the 1992 Mykonos restaurant terrorist attack against anti-regime Kurds. The court also found the Iranian government culpable in authorizing and assisting in the attack.

Three months after assuming office, Khatami scored a major foreign policy success when the EU agreed to return their ambassadors, apparently impressed by Khatami's efforts to effect a rapprochement. In May 1998 a new era of relations with the EU opened following the first positive talks between a senior official from the British Foreign Office and his Iranian counterpart. This breakthrough in diplomatic relations with Britain, which had been marred for nineteen years, was attributed to the perceived moderate leadership of Khatami.<sup>17</sup>

In another significant step toward improved relations with Europe, Foreign Minister Kharrazi announced in September 1998, that the Iranian government was formally disassociating itself from the decade-old bounty on the life of Salman Rushdie, author of the controversial novel *Satanic Verses*. While hardline Iranian elements immediately contradicted his statement, this was a large step in removing a major obstacle between the West and Iran. In response, Britain announced it would upgrade its diplomatic relations with Iran to an exchange of ambassadors for the first time since 1980 and the EU reestablished official ministerial contacts.<sup>18</sup>

These efforts to reengage in the region and with Europe are well conceived and appear to have been well received. Concerns about Khatami's limited experience in the foreign policy arena and regional politics are dispelling and perhaps work to his advantage, allowing for greater receptivity and trust in the region and Europe. Through these efforts, Khatami has given promise to Iranian hopes for a better life and a more secure region, but he knows that relations with the U.S. are fundamental to achieving economic prosperity.

#### **UNITED STATES - IRANIAN RELATIONS**

Iran's approach to better relations with the United States is more problematic than with its regional neighbors and Europe. Iran can recite a substantial list of grievances against the U.S. dating to 1953 when the U.S. helped restore the Shah to power and removed the popularly elected premier, Mossadeq. While improved relations with America would be symbolic of what Iran's youthful population yearns for, a reconciliation with modernity, Khatami cannot afford to rush into a relationship which would blatantly confront the conservative opposition and potentially undermine his domestic and foreign policy agendas.<sup>19</sup>

The dilemma and reality for the regime is that dealing with the U.S. is essential if Iran is to prosper in the region and share in the potential wealth of the Caspian.<sup>20</sup> Relations are evolving, albeit at a predictably slow pace, with both sides at least recognizing that improved relations are in their mutual interests. The issue is no longer whether both want better relations, although the conservatives

would argue this point, but how to best go about it without threatening Khatami's political position.

Both countries have important issues to discuss and resolve. The Americans want to talk about Iran's alleged support of terrorism, sabotage of the Arab-Israeli peace process, and development of weapons of mass destruction (WMD). The Iranians want to talk about the release of frozen assets and American economic sanctions that make life harder and costlier. These two sets of complaints, or demands, provide the basis for a bargain.<sup>21</sup>

The first step in this mutually cautious rapprochement came shortly after Khatami's inauguration when the Clinton administration sent a message through the Swiss ambassador in Teheran suggesting the opening of a new U.S.-Iranian dialogue.<sup>22</sup> Khatami's public response came in a January 1998 CNN interview in which he praised the American people, but rejected any direct government to government negotiations, citing a history of American intervention in Iran.

U.S. Secretary of State Albright, in a June 1998 speech to the Asia Society, offered the prospect of working with Iran 'when it is ready' to develop a road map leading to normal relations. The same road map strategy was used by the Bush administration to establish the requirements that Vietnam had to meet in order to achieve normal diplomatic and economic relations with the United States.<sup>23</sup>

In September 1998, Foreign Minister Kharrazi responded by acknowledging a change in tone in U.S. policy, but rebuffed Albright's offer, accusing the Clinton administration of pursuing an outdated policy of hostility toward his country.<sup>24</sup> Albright's failure to offer

any specific initiative or policy shift apparently irritated Iranian officials who saw no incentive to begin a dialogue with Washington.

In the same month, Khatami became the first Iranian leader in twelve years to address the United Nations General Assembly in New York. His speech was conciliatory to the global audience and significant in that he did not criticize the United States, made milder criticism than usual of Israel, did not call for a free Jerusalem, and did not attack the 1992 peace agreement between Israel and the Palestinians.

Despite the lack of official, bilateral government contacts, there have been subtle policy changes on both sides over the past eighteen months. In October 1997, the United States placed the premier opposition group to the Iranian regime, the Mojahadeen-e-Khalq, on the terrorist list. This gesture was at least partly in response to Khatami replacing Intelligence Minister Ali Fallahian, an architect of terror campaigns, as well as other controversial personnel in the former Iranian cabinet after becoming president.<sup>25</sup> In February 1998, the State Department eased the visa application process for Iranians wishing to visit the United States and in December 1998 Iran was removed from the U.S. list of major drug-producing countries after eleven years. In February 1999, the State Department changed the tone of its language by declaring that Iran will no longer be called a 'rogue state'.<sup>26</sup>

For Iran's part, in January 1998 Khatami called for cultural exchanges aimed at breaking down the walls of mistrust between Teheran and Washington.<sup>27</sup> To this end, Iran warmly welcomed American wrestling teams in February and September 1998, much to the consternation and

probable horror of the hardliners who witnessed cheering Iranians waving American flags. The World Cup match between the two countries in June 1998, won by Iran, provided another occasion for the Iranians to exhibit by and large friendly reactions toward the United States, again to the chagrin of the conservatives. These, together with other cultural and sports exchanges are an important first step for Iran to develop the confidence to move further forward in a more formal relationship with the United States.

Communications and coordination between the American and Iranian navies operating in the Persian Gulf are improving. A year and a half ago, there were a series of incidents of ship bumping and very hostile communication, threats, and rhetoric when there had to be bridge to bridge communication. Communication is now very professional and polite.<sup>28</sup> On occasion, Iran also cooperates with enforcing U.N. sanctions against Iraq - seizing illegal cargo ships or forcing them away from the sanctity of Iranian waters.

Little visible progress has occurred since September 1998, however, both are absorbed with other issues. President Clinton's impeachment trial, concerns over the Asian financial collapse, and the December military strikes against Iraq occupied the U.S. agenda throughout the end of 1998 and early 1999. Khatami was engrossed in fighting off and responding to conservative attacks against his reforms and supporters, preparing for February's election, and celebrating the Muslim holy month of Ramadan.

Despite these tentative, yet important, steps toward establishing some degree of contact, confidence, and relations, any substantive progress in the relationship must come on an official basis. To

discuss and resolve serious issues requires government to government talks and some degree of formal recognition and relations. With the end of the impeachment trial and the February Iranian elections, conditions may now be more conducive to begin looking at establishing a formal dialogue and relationship from which both countries can benefit. As with Iran, this requires a fundamental shift in U.S. policy.

#### **CURRENT US POLICY TOWARD IRAN**

The foundation of current U.S. policy in the Gulf is the belief that both Iraq and Iran pose serious threats to the security of the GCC states, regional stability, and the free flow of oil.<sup>29</sup> In May 1993, after the Clinton administration assumed office and reappraised American strategy in the Gulf, the dual containment policy was enunciated. The policy's intent is to contain the threats posed by Iran and Iraq against the secure flow of oil from the Persian Gulf to world markets, prevent either from becoming a dominant power in the region, and protect the Middle East peace process.

It also specifically aimed at changing the Iranian government's behavior in several key areas: development of WMD and long range missiles, support for terrorism and groups that violently oppose the peace process, efforts to undermine friendly regional governments, and the development of offensive military capabilities that could threaten U.S. GCC partners and the flow of oil.<sup>30</sup>

The greatest concern the United States has regarding Iran is its WMD programs. Among regional states pursuing WMD, few have done so as aggressively as Iran, nor offer a more clear-cut challenge to American

presence and traditional approaches in managing WMD threats.<sup>31</sup> Iran has several motives for pursuing these programs. They were initiated in response to Iraq's use of chemical weapons against Iran during the Iran-Iraq war in the 1980s and the surprising lack of reaction and response from the international community in condemning their use. These weapons provide a deterrent effect, regional prestige (an important qualification in the Middle East), and symbolize national technical capabilities and ability. They also provide Iran a potential response to perceived military threats from the United States and Israel, particularly since Iran does not have a significant conventional military capability.

Concerning terrorism, Iran's history of direct and indirect involvement in terrorist actions against the United States and some of its key allies makes this another important issue on the American agenda. As long as the terrorist threat to Americans continues, there can be no fundamental change in American policy.<sup>32</sup> The list of Iranian involvement in terrorism is long and well documented; the question is whether Khatami is able and willing to renounce terrorism as an instrument of policy and can gain control from the hardliners of the organizations, networks, and institutions responsible for its planning and execution.

The definition of terrorism is often a matter of perspective, however. Iran views its support of the Hezbollah in Lebanon as one of Shi'a protector, supporting Lebanon in its attempt to expel a foreign invader, Israel. In spite of this support, Iran's Foreign Minister and others have encouraged Israel's departure from Lebanon by implying that after withdrawal, the need for Hezbollah resistance would end.

By implication, Hezbollah could then act as a political vehicle for the Shi'a in Lebanon.<sup>33</sup> The question is whether Hezbollah would carry the conflict into Israel after an Israeli withdrawal.

The distinction between Iranian attacks against the U.S. and its allies and actions directed against Iranian opponents must also be made. With regard to Iranian attacks against opposition groups, many construe these acts as no different than a host of other politically motivated assassinations throughout the world during the Cold War. Iran frequently appeared confused at world reaction against attacks it saw in the context of internal politics versus attacks against other states, as in the Mykonos example.

In recent years, Iran appears to have tempered its involvement in terrorist activities throughout the world, although some suspicion remains it was involved in the 1996 Khobar Towers bombing in Saudi Arabia that killed 19 Americans. While its capability and support of terrorism remains evident, Iranian support for terrorism in Europe (particularly Germany and France, Iran's major trading partners) appears to be diminishing and signals a more pragmatic approach to foreign policy.<sup>34</sup> Additionally, Iran's declared policy on terrorism has already shifted and Khatami's emphasis on the rule of law, accountable government, and reasonable criticism has changed the domestic atmosphere where the previously lawless state dominated.<sup>35</sup>

The third major policy concern for the United States is Iran's active resistance to the Middle East peace process. The administration believes there is a strong connection between the success of the peace process and regional security, including protecting the Arab Gulf countries from potential hegemons such as Iraq and Iran. If the peace

process is jeopardized, the U.S. will find it more difficult to openly operate in concert with its Arab allies in defending the Gulf.<sup>36</sup>

Iranian opposition to the peace process stems from solidarity with fellow Muslims and scepticism about whether the Palestinians can count on gaining much from the negotiations.<sup>37</sup> As well, conservatives believe the peace process is forcing an American-Israeli vision of stability on the region.<sup>38</sup> Few expect Iran to support Israel and the peace process, but less resistance to the effort would indicate Iranian willingness to let those most closely involved make their own decisions based on their own interests and desired outcomes. While meeting with Palestinian Authority leader Yasser Arafat during the OIC summit in December 1997, Khatami reportedly assured him that Iran would support the Palestinians in any agreement they make with Israel, indicating a shift in Iranian policy. Iran's muted criticism of the recent Wye River Accord is also indicative of this shift.

U.S. efforts to modify Iranian behavior in these three areas through the dual containment policy have not been terribly successful. The basic premise of the policy has never been widely accepted nor supported in the region or Europe and it is viewed as a policy with plenty of penalties, but few incentives for Iran to modify its behavior. As a result, Washington has been unable to induce any significant change in Iran's behavior; the policy has only made it easier for hardliners in Teheran to shrug off economic stagnation as a consequence of victimization by the U.S.<sup>39</sup>

#### **RECOMMENDATIONS FOR U.S. POLICY CHANGES**

The opportunity to initiate a policy change toward Iran appears

at hand. Conditions in the region are different today than they were only eighteen months ago. Iran appears to be modifying its behavior more in response to its own situation than to U.S. pressures and policy and Khatami seems willing, albeit carefully, to begin a new relationship with the U.S. There is an urgent need for policy makers to conceive of the U.S. national interest regarding Iran in a new and enlightened way.<sup>40</sup> With the dual containment policy no longer effective, the need for a substitute is self-evident. But what actions can the United States take to begin reestablishing a dialogue and moving toward a formal relationship with Iran?

Improvements in the relationship need to move beyond talk and rhetoric and begin to take on substance. A policy objective of reestablishing formal relations, with the intent to eventually reopen an American embassy in Teheran should be clearly delineated. Establishing formal relations should not be confused with friendly relations; there remains too much animosity between the two for friendly relations to develop in the near term, but this alone should not prevent the pursuit of a clear objective.

Resistance to change will come from many quarters, elements of Congress, pro-Israeli groups, and various government bureaucracies for example, but there is increasingly strong support from many inside and outside of the U.S. government for change. Former National Security Advisors Scowcroft and Brzezinski, former Assistant Secretary of State Robert Murphy, former Congressman and Chairman of the House Foreign Relations Committee Lee Hamilton, and several former U.S. ambassadors to the region advocate relaxing economic sanctions against Iran and support a general relaxation of U.S. efforts to isolate Iran.<sup>41</sup> Cyrus

Vance, Secretary of State when President Carter decided in 1979 to break relations, also believes the time has come to reestablish relations.<sup>42</sup>

Any policy changes, however, must be cautious and designed with a view that serves U.S. national interests while stabilizing Khatami's political position. The fear of undermining his position would need to be a major consideration in any decisions, but seizing the policy initiative could work to allow Khatami to dictate the pace at which he would like, or is able, to proceed. This is antithesis to most policy makers who prefer to control events where possible and appears counterintuitive, but may be worth the risk in Khatami's case.

U.S. proposals may not meet with immediate positive response from Iran, but it serves U.S. interests to be viewed as taking the lead. Khatami may not be able to reciprocate, given his domestic political constraints, but his reluctance to do so should not necessarily be construed as rejection. Policies that create positive conditions for Iran to continue its emergence and reengagement are conducive to strengthening regional security and U.S. interests.

After clearly defining a policy objective, an important step would be to develop a road map, as Secretary Albright proposed, with clearly defined goals, and present it to the Iranians as a beginning position. Decision points can be incorporated, allowing for time to assess the direction and pace of the relations. This map construct include realistic demands and expectations for both sides and be vetted by the Interagency within the U.S. government. The administration should also consult U.S. allies in the Gulf to garner regional support for any future steps.

Beyond developing a plan to renew formal relations with Iran the U.S. can unilaterally do several things to indicate good faith and intent. A good start would be to resolve the frozen assets problem. Most claims have been settled at the Hague Claims Tribunal, but two remain - a claim against the U.S. for damages sustained during the Iran-Iraq war and another for money related to a trust fund established by the Shah in the United States to pay for military hardware.<sup>43</sup> The U.S. could push for arbitration and resolution through the Hague and put an end to an issue that dates to 1979.

The U.S. might also reduce or eliminate its unilateral economic sanctions, imposed in 1995, by lifting bans on consumer goods. More importantly, the administration could ask Congress to change the Iran-Libya Sanctions Act which penalizes foreign companies conducting business in the Iranian energy industry and restricts U.S. firms from conducting business or trade with Iran. Sanctions have been an aggravating, but not crippling, measure and are a visible sign of American animosity toward Iran. They also provide an issue for the hardliners to continue attacking the United States and prevent U.S. firms from competing for the benefits associated with the Caspian Basin oil resources.

The U.S. could also reduce its opposition to Iran's efforts to develop infrastructure through Iran to transport the Caspian Basin's oil and gas. This issue is particularly important to Khatami's need to improve the economy and create jobs, would allow American firms the opportunity to compete, and would be a major indication that the U.S. is serious about changing its relationship with Iran.

Other confidence building measures could include indirect or

multilateral talks on issues of mutual interest, such as Afghanistan, Iraq, and drug smuggling.<sup>44</sup> In the military domain, the U.S. Central Command could propose military-to-military discussions to formalize naval operating procedures in the Persian Gulf and to continue improving coordination and communication.

Finally, to move forward toward formal representation in each country, opening a consulate office in Teheran may be feasible. The office could operate as an interests section under another country's flag, such as Switzerland which has represented U.S. interests in Iran since the 1979 break in relations, and would improve visa request procedures. To reciprocate, the U.S. could permit Iran to open a similar office in Washington.

Implementing even some of these suggestions would demonstrate U.S. sincerity and serve as the initial steps leading to improved relations, formal government to government discussions, and perhaps the eventual establishment of full diplomatic relations. They are only the beginning points on what one would expect to be a long and arduous process focused on changing the direction of a twenty year acrimonious relationship.

## CONCLUSION

The election of President Khatami in 1997 and the resulting social and political changes that have since taken place within Iran are profound when viewed in the context of the past twenty years of isolation and Islamic fundamentalist governance. His attempts to create a pluralistic society where social and political freedoms will hopefully lead to better economic conditions are to be applauded. In spite of resistance from conservative hardliners, Khatami has pushed his liberalization agenda and created an atmosphere of hope and excitement among the Iranian people.

His foreign policy agenda of reaching out to mend divisions with Iran's Gulf neighbors and Europe has been extremely successful and Iran enjoys an increasing degree of respect internationally as it emerges from isolation. Nonetheless, Khatami realizes that dealing with the United States is essential for Iran to move forward economically and to share in the wealth of the Caspian Basin oil and gas resources. To this end, a subtle rapprochement has been underway between Iran and the U.S., but no substantive progress has been made.

An opportunity exists to improve the acrimonious relationship the two nations have shared for the past twenty years. Despite the daunting task each will have in overcoming mutual suspicions, domestic opposition, and serious disputes on critical issues the time has come for both to reestablish formal relations.<sup>45</sup> Several recommendations toward this end have been put forward here for consideration. Timing and conditions for a fundamental shift in this relationship appear optimal, it remains to be seen whether the political courage exists on both sides to make it happen.

## ENDNOTES

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<sup>1</sup> Jubin Goodarzi, "Iran's Arab Policy: A Thaw in the Spring?" *Middle East International*, 9 June 1998, p.18.

<sup>2</sup> Stephen C. Fairbanks, "A New Era for Iran?" *Middle East Policy*, September 1997, p.51.

<sup>3</sup> Saeed Barzin, "Tight Finances, Again", *Middle East International*, 30 January 1998, p.13.

<sup>4</sup> R. K. Ramazani, "The Shifting Premise of Iran's Foreign Policy: Towards A Democratic Peace?" *Middle East Journal*, Spring 1998, p.180.

<sup>5</sup> Saeed Barzin, "Khatami's Shock Victory", *Middle East International*, 30 May 1997, p.5.

<sup>6</sup> See Geoffrey Kemp, *America and Iran: Road Maps and Realism*, (Washington: The Nixon Center, 1998), pp. 31-35 for a more in-depth discussion of this struggle.

<sup>7</sup> "Terrorism in Tehran", *Washington Post*, 12 December 1998, p.A22.

<sup>8</sup> "Iranian Group to Challenge Conservatives", *Washington Post*, 7 December 1998, p.A22.

<sup>9</sup> Kemp, p.4.

<sup>10</sup> Goodarzi, p.19.

<sup>11</sup> Ramazani, p.183.

<sup>12</sup> Goodarzi, p.20.

<sup>13</sup> Kemp, p.20.

<sup>14</sup> "Iran, Saudi Arabia Seek Shared Oil Strategy", *Washington Post*, 7 December 1998, p.A22.

<sup>15</sup> Goodarzi, p.18.

<sup>16</sup> Saeed Barzin, "Shifting Alliances", *Middle East International*, 16 October 1998, p.6.

<sup>17</sup> Adel Darwish, "Iran at the Crossroads", *Middle East*, London, July 1998, p.5.

<sup>18</sup> John M. Goshko, "Iran Renounces Khomeini's Bounty on Novelist Rushdie", *Washington Post*, 25 September 1998, p.A1.

<sup>19</sup> Carroll R. Bogert, "Mullah Melee", *The New Republic*, 19 January 1998, p.15.

<sup>20</sup> Kemp, p.3.

<sup>21</sup> "Leaders: Helping Khatami", *The Economist*, 11 April 1998, p.14.

<sup>22</sup> Mark N. Katz, "The Khatami Factor", *The National Interest*, Spring 1998, p.87.

<sup>23</sup> Thomas W. Lippman, "Albright Offers Iran Possibility of Normal Ties", *Washington Post*, 18 June 1998, p.A1.

<sup>24</sup> Elaine Sciolino, "A Top Iranian Aide Rejects U.S. Overture on New Ties", *New York Times*, 29 September 1998, p.11.

<sup>25</sup> Kemp, p.12.

<sup>26</sup> Nora Boustany, "A Rogue State No More", *The Washington Post*, 17 February 1999, p.A14.

<sup>27</sup> MacLeod, p.72.

<sup>28</sup> Interview with General Anthony Zinni, Commander in Chief of the United States Central Command. "Avoid a Military Showdown with Iraq", *Middle East Quarterly*, September 1998, p.60.

<sup>29</sup> Abdullah Al-Shayeji, "Dangerous Perceptions: Gulf Views of the U.S. Role in the Region", *Middle East Policy*, Washington, September 1997, p.3.

<sup>30</sup> *A National Security Strategy for a New Century*, The White House, Washington, October 1998, p.52.

<sup>31</sup> Paula A. DeSutter, *Denial and Jeopardy: Deterring Iranian Use of NBC Weapons*, (Washington: National Defense University Press, September 1997), p.4.

<sup>32</sup> Kemp, p.15.

<sup>33</sup> Shahram Chubin and Jerrold D. Green, "Engaging Iran: A U.S. Strategy", *Survival*, Autumn 1998, p.157.

<sup>34</sup> Frederick R. Strain, "Discerning Iran's Nuclear Strategy", *Essays on Strategy* XIV, (Washington: National Defense University Press, March 1997), p.45.

<sup>35</sup> Chubin and Green, p.158.

<sup>36</sup> Kemp, p.15.

<sup>37</sup> Chubin and Green, p.157.

<sup>38</sup> Kemp, p.59.

<sup>39</sup> Chubin and Green, p.153.

<sup>40</sup> Ramazani, p.186.

<sup>41</sup> Katz, p.85.

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<sup>42</sup> Taken from Vance speech presented to the Asia Society on 13 January 1998.

<sup>43</sup> Kemp, p.63.

<sup>44</sup> Ibid, p.ii.

<sup>45</sup> Ibid, p.88.

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